State of Indiana

S.T.A.R.T.® SMART

Summer 2007

Automatic Enrollment Is Here!

By Auditor of State Tim Berry

In 2006 Congress passed the Pension Protection Act (PPA). This Act has played a large part in defining the actions that benefit and retirement plans can convey to their participants and non-participants. One of the biggest new regulations to come out of the PPA is an enactment of a number of legislative provisions affecting automatic enrollment plans. Effective July 1, 2007, all new employees of the State of Indiana will be automatically enrolled in the Hoosier S.T.A.R.T.® Plan upon receiving their first paycheck. Indiana legislators this session passed new language in HB 1001 to allow for the automatic enrollment of all new employees of the State of Indiana, while also providing them with a 30-day window to opt out of the Plan if they don't wish to participate.

What does all this mean?

Beginning July 1, 2007, all new State employees will be enrolled in the Hoosier S.T.A.R.T. Plan at the $15 level. This will allow each employee to also automatically receive the State matching contribution of $15, giving the employee an additional $390 in annual savings. At the time new employees receive their first paycheck, they will be notified of their automatic enrollment in the Plan and will have 30 days to notify the Plan administrator if they would prefer to opt out. Most importantly, automatic enrollment will help remove obstacles to saving for people who may otherwise be overwhelmed with the responsibility of saving for retirement.

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The Hoosier S.T.A.R.T. Plan is an important State benefit that tends to get overlooked due to the complexity and volume of forms that need to be prepared and filed at the inception of employment. Currently, only half of Indiana's State employees are enrolled in Hoosier S.T.A.R.T. With automatic enrollment, we project this percentage to rise over time to the 80% enrollment range.

Automatic enrollment will also help increase the personal savings rate and build the personal savings ethic of our State employees, thereby helping them prepare for retirement. As I mentioned in our last newsletter, it is now more important than ever for Hoosiers to begin getting involved in their retirement savings Plan as we can no longer count on Social Security and a public pension to provide sufficient savings for retirement. Automatic enrollment will certainly act as a catalyst to get employees involved in their retirement planning roles.

Lastly, another directive to come out of the PPA is a new look at what qualifies as a default investment fund in automatic enrollment plans and how it is set up for those who don't wish to select an investment portfolio themselves. In the fall newsletter, we will discuss this topic in length and go over the changes taking place with our current default investment alternative. ■

Auditor's Corner

Investment Overlap

How diversified is your investment portfolio?

If you own several different funds, you may think you are diversified. But what if all of your funds hold stock in one company—say, General Widget? That's overlap—when you own the same stock or bond in more than one fund. The more overlap you have, the less you benefit from diversification. Check for overlap by reading your funds' periodic reports to see the stocks or bonds each individual fund owns.

For a fast take on overlap, check out the top-10 holdings of each of your funds. If most of your funds own the same few stocks or bonds, consider selling and directing the proceeds into funds that hold different stocks or bonds. That way, your portfolio can benefit from diversification. ■

The Right Mix

Attempt to maximize growth while minimizing portfolio risk.

Asset allocation means determining the right mix of stocks, bonds and cash equivalents to help you prepare for a comfortable retirement. It may also help to reduce risk in your investment portfolio.

Create a Timeline

Although your primary goal is retirement, your financial objectives probably fall into three categories: growth, income and protecting your investments from risk. While you're working, you may seek growth; as retirement approaches, your focus may shift to income generation and risk avoidance.

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The Right Mix *(continued)*

Pick and Choose

Only you know your risk tolerance, but experts agree your allocation should gradually become more conservative as you age. For example, while a mix of 80% stock funds and 20% bond funds might be fine when you're younger, at retirement age you might want to preserve your assets and generate income while continuing to seek growth. Consider adjusting your investment allocation over your working years to gradually get more conservative as retirement approaches. When you retire, depending on your risk tolerance, you may have a more conservative mix of 40% stock funds and 60% spread among bond funds and cash equivalents.

Rebalance to Stay on Track

Once you've chosen an allocation, review it periodically to make sure your savings are on track. You may need to rebalance if personal circumstances change, or if market performance has caused certain asset classes to become overweighted in your portfolio.[1] For example, if the stock market has gone up while the bond market has stayed flat, you may need to sell a portion of your stock funds and reinvest the proceeds in bond funds to maintain your original mix.

Finally, remember that no single asset allocation is right for every investor. Yours should reflect your risk tolerance, time horizon and retirement goals. ■

Great-West Retirement Services® Introduces New Retiree Advocate

Great-West Retirement Services is pleased to announce the creation of a new position called the Retiree Advocate. The primary purpose of the Retiree Advocate is to receive and organize input from Plan participants and retirees with respect to the services, products and features that Great-West Retirement Services should provide to better serve retirees and those participants nearing retirement.

Your Retiree Advocate is Ron Nichols—a 1971 graduate of Santa Barbara College and a 40-year veteran of the financial services and retirement plan business. Ron built a business focused on public sector retirement plans, which grew to encompass more than 450 public entities, with more than 100,000 participants. He is one of the founding members of the National Association of Government Defined Contribution Administrators (NAGDCA). A retiree since 2004, Ron's experience in the public sector pension business, plus his experience as a retiree, brings you a unique perspective. He is keenly focused on the needs of public sector retirees and those nearing retirement. "For the past 40 years, the public and private sectors have focused most of their efforts on the accumulation phase of retirement savings. It is now time to focus more attention on the retirement income portion of the market, and the unique and growing needs of public sector employees," Ron says.

"For the past 40 years, the public and private sectors have focused most of their efforts on the accumulation phase of retirement savings. It is now time to focus more attention on the retirement income portion of the market, and the unique and growing needs of public sector employees." —Ron Nichols, Retiree Advocate

Issues of importance to retirees will appear regularly in this newsletter and on your Plan Web site. Ron also welcomes your input on issues of concern to you. He may be reached by phone at (877) RET-GWRS (738-4977) or by e-mail at retireeadvocate@gwrs.com. ■

1 Rebalancing neither ensures profit nor protects against loss in declining markets. Investors should consider their financial ability to continue a rebalancing plan during periods of fluctuating price levels.

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